



2001 M Street, N.W.  
Washington, D.C. 20036

April 26, 2001

The Board of Trustees of the University of the  
District of Columbia

We have audited the financial statements of the University of the District of Columbia (the University), as of and for the year ended September 30, 2000, and have issued our report thereon dated January 26, 2001. In planning and performing our audit of the financial statements of the University, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

In accordance with Government Auditing Standards, we have issued a separate report dated January 26, 2001, on our consideration of the University's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts and grants. That report presented our findings with respect to material weaknesses and other reportable conditions.

During our audit we also noted other matters involving internal control and other operational matters that are presented for your consideration in Appendix A to this letter. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. The status of prior year comments is presented in Appendix B.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the University's organization gained during our work to make comments and suggestions that we hope will be useful to you. We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Board of Trustees of the University of the District of Columbia, the University's management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**



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a member of KPMG International, a Swiss association.

<b>Process</b>	General Management
<b>Title</b>	Comprehensive Management Plan for the Accounting and Finance Departments
<b>Observation</b>	<p>The University's accounting and finance departments do not have a comprehensive management plan. Due to the lack of overall stability of management and staff in the recent past, a plan with documented goals and objectives should be developed to guide the departments' employees and provide some direction for the future of the departments. In addition to developing a plan, management must ensure that mechanisms are in place to monitor the implementation of the plan and periodically re-evaluate the University's accomplishments of the various goals and objectives articulated in the plan.</p> <p>Further, the University does not presently have an accounting procedures manual for its many diverse transactions and activities. Such a manual should be a priority for inclusion in the overall management plan. An accounting procedures manual can be used to codify the University's various procedures. The manual can also be used to set forth job descriptions, lines of authority and supervision for all departments, report formats, account codes and descriptions, and similar descriptive materials. The existence of the manual should help to reduce the incidences of procedural violations and misunderstandings that are presently occurring.</p>
<b>Recommendation</b>	<p>We recommend that the University develop a comprehensive management plan. At a minimum the management plan should include:</p> <ul style="list-style-type: none"> <li>• A detailed outline of the various functions of the University's departments;</li> <li>• The departments' goals and objectives for the short and long-term;</li> <li>• A detailed outline for accomplishing established goals and objectives;</li> <li>• Performance indicators to measure the departments' achievement of their goals and objectives;</li> <li>• Explicit definition of the authority and the responsibility for the departments and their staff;</li> <li>• Established operating rules, policies, and procedures;</li> <li>• Provision for supervisory reviews and approvals;</li> <li>• A plan for training new employees and providing refresher courses for those veteran employees who require additional training; and</li> <li>• Provision for undertaking corrective actions, as appropriate.</li> </ul>

<b>Process</b>	Financial Management
<b>Title</b>	Monitoring and Managing Cash and Investments
<b>Observation</b>	<p>During fiscal year 2000, the University did not reconcile its investment accounts. The University also did not record interest income on investments after June 2000. Routine reconciliations of investment accounts are essential to ensuring that transactions are timely and accurately recorded and properly allocated, as well as to assist management in making business decisions. Failure to reconcile investment accounts increases the risk of misappropriation of funds and fraud and restricts the ability of cash flow planning and overall management of these assets.</p> <p>The University is authorized to invest in various types of instruments including time deposits, fixed income negotiable securities, common stock and mutual equity funds. During the course of our audit, we noted that it is the University's policy to invest in corporate bonds rated A or better. However, the University had 3.6% of its permanent endowment fund investment portfolio invested in non-rated bonds. The University employs an investment company to manage its investment portfolio, but the investment company was not informed of the policy.</p> <p>Furthermore, the University does not have procedures in place to ensure that its claim to investment securities is properly protected against custodial credit risk. The entire carrying value of the investments in the University's unrestricted current fund, in excess of \$6 million, was uninsured or unregistered and held by a financial institution, but not in the name of the University.</p> <p>In addition, the University did not monitor the collateralization of its cash balances. The Federal Deposit Insurance Corporation (FDIC) insures bank balances, including certificates of deposit, for up to \$100,000 per financial institution. At the fiscal year end, the University did not have adequate collateral on its deposits in excess of depository insurance. The amount of the University's bank balance that was uninsured and uncollateralized was approximately \$168,000 of its total bank balance of \$572,000. Lack of on-going monitoring of collateral of deposits exposes the University to unnecessary losses. This risk of exposure could have been greater at other periods throughout the year considering the University makes substantial deposits during registration and when drawing down funds from federal financial aid and other grants.</p>
<b>Recommendation</b>	<p>The purpose of control-related policies and procedures is to counteract the various risks that could hinder or prevent management from achieving its objectives. It is essential that management develops control-related policies and procedures and monitors them on an ongoing basis to ensure that they are functioning properly. We recommend that the University strengthen its existing procedures and that the following be considered by the University to improve its monitoring and management of cash and investments:</p> <ul style="list-style-type: none"> <li>• Reconcile investment accounts monthly;</li> <li>• Monitor collateralization of deposit balances monthly;</li> <li>• Ensure that investment securities are protected against custodial credit risk by registering them in the University's name;</li> <li>• Adhere to its investment policy and communicate such policy to its trustees;</li> </ul>

<b>Recommendation (continued)</b>	<ul style="list-style-type: none"><li>• Timely record interest on investments;</li><li>• Develop an asset management plan to maximize earnings.</li></ul>
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<b>Process</b>	Loans Management
<b>Title</b>	Monitoring Loans
<b>Observation</b>	<p>The University provides loans to students through its student financial aid program. In addition, it also provides emergency loans to students and faculty from its post-secondary cash account. The University has some internal control systems in place to track loans; however, these systems are not effective in ensuring that loan information is complete, accurate, recorded in the general ledger and in compliance with federal regulations. The following conditions were noted during our audit:</p> <ul style="list-style-type: none"> <li>• The University received a capital contribution from the federal government to initially fund its student loan program. The University was required to match a certain percentage of the funding awarded by the federal government. The University initially participated in the Perkins Loan Program, two Nursing Loan Programs, and a Law School Loan Program. The University currently only participates in the Perkins Loan Program. The proceeds from collections on existing loans are used to extend new loans to students eligible to borrow funds. Once a University discontinues its participation in any loan program, it is required to return the proceeds from the collection on the loans made from that program to the federal government. Based on our review, it was determined that the University has not identified the proceeds required to be refunded to the federal government.</li> <li>• The University utilizes the services of AFSA Data Corporation to report student loan activity related to the federal financial aid loan programs. AFSA is required to send monthly reports to the University detailing the activity on the student loans, including loans originated, payments on loans, and loan cancellations. Although the University's staff does maintain some internal records on the initiation of these loans, this information is merely a listing of the loans originated and is not reconciled to the data submitted by AFSA. The University does not maintain internal subsidiary ledgers on loans receivable, but relies on the data from AFSA to determine its loans receivable balances.</li> <li>• AFSA records the collections of loans and remits the collections to the University's student loan bank account. During the course of our audit, we noted money was deposited into the account for collections, however, no loans were issued from this account. Upon inquiry and investigation, we noted that the loans were being funded by other funds, however, University officials cannot determine from which funds the loans are being issued. The loan fund is therefore borrowing from current funds to issue loans even though it has substantial cash in its student loan bank account to issue loans.</li> <li>• The University does not maintain adequate supporting documentation for its Perkins Student Loan Receivables. Proper supporting documentation should be maintained in order to effectively track and collect on outstanding student loans made by the University. The Federal Student Financial Aid Handbook (the Handbook) specifies the required student file documentation. We reviewed 9 student loan files and 6 of the 9 files did not have all of the information required by the Handbook. It is important for the University to maintain the required documentation, not only to comply with the guidelines of</li> </ul>

<b>Observation (continued)</b>	<p>the Handbook, but also to be able to assign uncollectible loans back to the Department of Education. Loans that are determined to be uncollectible can be assigned to the Department of Education if the University properly follows certain procedures and maintains certain supporting documentation. Should the University fail to follow the prescribed procedures, it must write off these uncollectible loans, which negatively affects the institution's economic condition.</p> <ul style="list-style-type: none"> <li>• The University issues emergency loans to students and faculty. These loans are generally in small dollar amounts and are supposed to be collected once financial aid and payroll checks are written to students and faculty. The University maintains information related to emergency loans utilizing the Student Information System. However, the University does not have an effective system of internal controls in place to ensure that emergency loans issued are properly recorded and subsequently collected. We noted that the University issued at least \$10,800 in emergency loans that were not recorded into the Student Information System. This could result in unnecessary losses to the University as well as issuing additional loans to faculty and financial aid to students who have not satisfied their existing obligations to the University.</li> </ul>
<b>Recommendation</b>	<p>To enhance the effectiveness of monitoring and recording loans, we recommend the University:</p> <ul style="list-style-type: none"> <li>• Maintain internal subsidiary ledgers of all of the University's loans receivable;</li> <li>• Reconcile information received from external sources to internally prepared information;</li> <li>• Ensure that documentation on loans is complete and properly recorded for all loans originated by the University;</li> <li>• Determine the portion of the loan fund assets, if any, that are refundable to the federal government;</li> <li>• Utilize the loan fund assets to issue new loans and satisfy the existing obligations of the loan fund to the current fund.</li> </ul>

<b>Process</b>	Cash Receipts
<b>Title</b>	Improving Operational Deficiencies in the Cashier's Office
<b>Observation</b>	<p>The cashier's office handles all cash receipts of the University. Receipts for student tuition, not including law school and continuing education, are recorded in the SIS Plus system. All other receipts are recorded manually and batch processed to general accounting for posting into the SOAR system. The cashier's office has two cashiers, one of which is the head cashier. These cashiers handle all of the daily transactions of the office including accepting cash, recording cash transactions and making deposits. We noted that there is a lack of segregation of duties in the cashier's office and that there is insufficient involvement of the area supervisor in the daily office operations. The office supervisor does not review and approve deposits before sending them to the bank. In addition, the cashiers are not bonded and there is no electronic surveillance of activity in the cashier's office.</p>
<b>Recommendation</b>	<p>In order to improve accountability of cash receipts and reduce the possibility for misappropriation of University funds, we recommend that the University adequately staff the cashier's office to ensure that incompatible functions are properly segregated. We further recommend that the University consider bonding its employees and employing some electronic surveillance equipment to protect the University in the event of misappropriation.</p>

<b>Process</b>	Receivables Management
<b>Title</b>	Monitoring Receivables and Establishing Collection Policies and Allowance for Uncollectible Accounts
<b>Observation</b>	<p>The University has various receivables from numerous sources. Its receivable balances consist of student accounts receivable, loans receivable, intra-District receivables, and receivables from federal and private grantors. The University has no established collection policies for its receivables. The following conditions were noted which indicate the need for improved monitoring of receivables, credit balances and collections:</p> <ul style="list-style-type: none"> <li>• Due to late billing, collection practices and circumventing policies to prohibit students with outstanding balances to register, the University had a receivable balance relating to student accounts of approximately \$9 million at the end of the fiscal year. It is the University's policy to allow student accounts receivable to remain outstanding for at least one year and one term before being referred to a collection agency. In most recent years, no student accounts receivable have been referred to a collection agency. Consequently, the University has an allowance for uncollectible student accounts of approximately \$4.6 million, which is approximately half of its student accounts receivable balance.</li> <li>• Some student accounts have credit balances indicating that they have overpaid the University and are entitled to refunds. It is the University's policy to have students request refunds for these balances. Should a student not request a refund, the University maintains the credit balance on the student's account indefinitely. At fiscal year end, the University recorded approximately \$200,000 in credit receivable balances. Since the University only sends bills or statements to students in the event that they have a balance owed to the University, it is reasonable to assume that students may be not be aware that they are entitled to a refund. Failure by the University to timely refund credit balances to students could be a violation of Title IV (Federal Financial Aid) regulations.</li> <li>• It was noted in other instances that the University sometimes estimates the amount of financial aid that is due to a student and credits the student's account for the estimated amount. In certain cases, the University refunds money to students in excess of the actual financial aid award due to an overestimation of the funds to be received. When this occurs, the University must then send a bill to the student for the amount over-refunded. This exposes the University to unnecessary losses.</li> <li>• The University does not maintain adequate documentation of some of its receivable accounts and does not always pursue collection of its receivables in a timely manner. As a result; during fiscal year 2000, the University was forced to write-off in excess of \$1.7 million in intra-District receivables that were determined to be uncollectible. The University also wrote-off substantial portions of its loan, student accounts and grants receivable balances.</li> </ul>